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F76/178**PRIME MINISTER**FOR PRESSAUGUST 26, 1976BUDGET DEBATE

The Leader of the Opposition delivered the Labor Party's response to the Budget on Tuesday. His speech displayed the same frame of mind, the same disregard for reality that so damaged Australia during Labor's three years of government.

As most economic commentators have said, he is living in the past. I regret to say that he was not in top form. I regret to say it because he has told everyone that he gets "terribly distressed" when people say he is not. Unfortunately it must be said: he wasn't. But one does have to admit that he has raised self deception to an art form.

He claimed that under Labor "unemployment was falling" - this from a man whose government trebled unemployment in one year.

He claimed that under Labor "inflation was falling" - this from a man whose government in its three years in office trebled the rate of inflation.

He claimed that under Labor "the incomes of Australians were protected against rises in the cost of living" - this from the leader of a government whose excesses destroyed the savings of tens of thousands of retired, whose inflation harmed the weak, the poor and the aged most of all.

He claimed that under the Labor government there was "restraint on Government expenditure" - this from a man whose budgets increased Government expenditure 115% whose accumulated budget deficits during his period in office approached \$6,000 million.

In just three years his Government reduced one of the world's most prosperous nations to one in keep recession and stagnation. There was no section of the Australian community that escaped unscathed from his plans for Australia's future. And the leader of the Opposition is unrepentant - he told us on Tuesday he would do it again if he had the chance.

Well he won't get it. The people of Australia won't have him. Bob Hawke knows it.

Still, I am sure that he is taking some comfort from this fact - as he said in London: he is more loved as Leader of the Opposition than he ever was as Prime Minister. I think that is true so far as the Australian people are concerned - never before in Australian history was a Leader of the Opposition chosen by such a massive landslide.

But I should add that his own Party probably loves him as much in Opposition as they did in Government. The irrepressible Bob Hawke, kindly Kim Beazley, Sir John Egerton, and all have expressed their feelings clearly and unmistakably.

Sir John Egerton "I could never trust Whitlam again nor could Australia" (The Australian, 28 July 1976)

Kim Beazley "I would resign if I was in his position" (Melbourne Herald, 16 March 1976)

Dr. Cairns "The first thing the Party has to do is to get rid of Mr Whitlam as Leader". (Brisbane Courier Mail, 5 January 1976)

Bob Hawke "The ALP doesn't belong to Whitlam (or Barnard) ... Whitlam seems to think he has an inherent right derived from God to make a decision to put the Party in such a dangerous situation." (The Australian, 5 June 1975)

Mr Speaker: I do not want to mislead the House. I am not going to accuse the Leader of the Opposition of putting forward an economic policy. To do so would be quite unfair because - as he has said - he is not much interested in economics.

The Government is. We have put forward a clear and consistent economic strategy. The Budget we put forward combines economic responsibility with social reform. It was a Budget for people. Because it will continue to move Australia out of the economic decline caused by the Labor Party.

Our central concern has been to attack inflation because this is the only way that sound growth can be restored and employment opportunities expanded. No aspect of the Budget demonstrates our concern for people more than the attack on inflation.

Unless inflation is seen to be coming under control, there will be: no increase in confidence in Australia's future; no increased investment; no sustainable increase in consumption and no sustainable increase in employment.

The Leader of the Opposition has understood nothing. He cannot see that in present circumstances, inflation and unemployment are inextricably linked. He cannot understand that there cannot be any sustained improvement in unemployment until inflation begins to be curbed and inflationary expectations dispelled.

His third Treasurer understood this last year. In the Budget speech last year he said:

".....inflation is this nation's most menacing enemy if we fail to control inflation, unemployment will get worse."

This has now been forgotten by the Leader of the Opposition. The present Government has also recognised that excessive wage increases are damaging Australia's economic prospects.

As the first of Labor's ephemeral Treasurers finally acknowledged, "One man's pay packet is another man's job".

Even the present Leader of the Opposition once - fleetingly - on 25th January 1975, grasped this point. He said:

"Simply the fact is, that for every excessive increase in incomes, the job of another man is taken". He soon lost his grip of this unpleasant fact.

This government recognises the unpopular but inescapable fact that in present circumstances, rising wage costs add to unemployment. We have put it to the Arbitration Commission and to the community. We submitted before the Arbitration Commission that full wage indexation locks the economy into double digit inflation.

The consequence of full wage indexation is to prevent sustained economic recovery or a return to full employment. The Commission is beginning to accept this. Increasingly, the trade union member is beginning to accept this.

There is a growing recognition that excessive wage increases are not only illusory but damaging to the Australian economy and to the interests of workers. The trade union movement has a vital role in determining whether the economic recovery continues and employment opportunities expand.

Those few militant officials who inflict senseless strikes on the community are undermining recovery and restricting job opportunities. They are imposing hardship on all Australians in an effort to advance their own interests.

Strikes such as the container dispute involving rolling strikes by several unions on the water front, the 48-hour S.E.C. strike in Victoria, and the Medibank strike have cost Australia millions of dollars in lost production, lost wages and lost jobs.

It is estimated that the S.E.C. strike will cost Australia \$70 million in lost production; \$12 million in lost wages; 300,000 employees will be stood down.

It is estimated that the Medibank national strike cost Australia \$100 million in lost wages, \$300 million in lost production.

They have harmed all Australians; they have harmed the unemployed most of all.

The Leader of the Opposition has understood nothing; he persists with the virulent anti-business mentality which his party translated into policy when in government.

The Leader of the Opposition has understood nothing - he persists with the virulent anti-business mentality which his Party translated into policy when in government.

This irrational dislike for business was one of the factors which undermined business confidence and investment. It is no accident that private fixed investment in 1975/76 was almost ten percent less in real terms than in 1973/74. It is no accident that in the Labor years the private sector - which usually employs three quarters of the workforce - took up none of the increase in the workforce. It is no accident that under Labor billions of dollars of minerals and energy projects were deferred.

When he attacks business and business profits, the Leader of the Opposition is attacking jobs. He is attacking the hundreds of thousands of small businesses which suffered disastrously under his policies and which this Government - in this Budget - has moved decisively to help.

Our decision to ease the distribution requirements for private companies will be a significant assistance to many small businesses. Our decisions on trading stock valuation adjustment will for the first time, put a brake on the erosion of the capital base of private enterprise - erosion by inflation. The incentives we have given to mining and oil exploration will get these vital industries moving again - as they were before growth was halted by the doctrinaire approach of the Labor Party.

By attacking inflation and by offering industry tax incentives, this Government has shown that it wishes to re-establish a vigorous and prosperous business sector.

Only if there is business recovery will there be national prosperity and employment for all who want to work.

The private sector employs three quarters of the workforce - Australia needs a vigorous private sector if more job opportunities are to be created. New investment must take place to forestall supply bottlenecks as the economy gathers momentum. New investment in the private sector and the increased productivity will make a major contribution to raising the living standards of all Australians.

The Opposition would obviously have budgeted for a much larger increase in outlay and a much larger deficit.

The Leader of the Opposition has shown that his only strategy is to spend. He has learnt nothing. He doesn't understand that his approach simply leads to more inflation, more unemployment. He has an insatiable desire to throw money at problems - an approach which not only undermines the economy, but exacerbates the problems the expenditure purports to solve. He has tried that approach. He has failed. In Australia and overseas the lesson is clear.

Governments cannot spend their way out of recession when inflation is running as it has been recently. To attempt to do so is apt to lead, perhaps after a short burst of activity to a deepening of the recession and worsening of unemployment.

There can be no better demonstration of the inappropriateness of the traditional "pump-priming" approach in periods of rapid inflation than to look at Labor's record. In 1974/75 Budget expenditures increased by 46 percent and the deficit rose by almost \$2,300 million.

In 1975/76 there was a further increase in expenditure of 23 percent and the deficit rose by a further \$1,000 million to \$3,585 million - it would have been much greater if it hadn't been for the measures we took.

Over this period prices increased by more than 30 percent. Yet over this same period there was negligible growth in real output and unemployment increased by over 200,000.

Let me turn to the question of unemployment.

Opposition spokesmen have tried to create the impression that the Budget will give rise to a massive increase in unemployment - figures of 500,000 unemployed by the end of the year have been wildly bandied about.

What hypocrisy from the men who made unemployment a major problem for the first time since the thirties. As part of this reckless and mischievous campaign some have even gone so far as to assert that the budget documents themselves imply a rise in unemployment over the course of 1976/77.

Neither statement No. 2 attached to the budget speech nor any other budget document implies an increase in the level of unemployment over the course of 1976/77.

With employment growth expected to be more than 2 percent and labour force growth 2 percent at most, the statement in fact foreshadows some reduction in the level of unemployment during the course of the year as a whole.

The Leader of the Opposition and others have taken out and dusted down the worn-out slogan that this Government is not interested in reducing the level of unemployment: indeed, that it is deliberately maintaining a so-called "pool" of unemployment as a means of inducing wage restraint on the part of the trade union movement.

First, it is argued that by curtailing the rate of growth of budgetary spending the Government will be depriving the private sector of much-needed demand for its output. This demonstrates a complete lack of understanding of the Government's economic strategy.

Neither I, nor the Treasurer, nor any other Minister have suggested that curtailing the rate of growth of Government spending will not have some short-term impact on those parts of the private sector previously supplying that Government demand.

But what those who argue along those lines conveniently overlook is that this is only part of the total picture. The curtailment of spending has enabled the Government to take a number of measures which will provide a direct boost to private sector activity.

These have included tax cuts for both businesses and individuals.

What the A.L.P. cannot comprehend is the effect of these measures on consumer and business confidence - confidence which is growing because of the belief that this Government will successfully combat inflation and get the economy moving again.

These boosts to the private sector will mean that far from causing a reduction in employment opportunities the budget will result overall in an expansion of such opportunities. An expansion which will be a sustainable expansion - not a short-term and unsustainable one that results from attacking the symptoms of the problem rather than the cause.

To say that a budget that seeks to rein back inflation is designed to create unemployment is simply to fail to recognise that unless inflation is reined back there can be no sustained reduction in unemployment.

The other ground for charging the Government with attempting to maintain a "pool" of unemployed is that the call for a reduction in real wages until the present wage/profit imbalance is rectified, will lead to reduced spending by consumers and, in turn, lower production and employment opportunities.

Thus the Leader of the Opposition criticises the Government for attempting to curb excessive wage increases. In a Whitlamesque economic analysis, he argues that only if real disposable incomes are increased will consumer spending be increased.

Here again, there is a failure both to understand quite basic propositions and, clearly, to learn anything from past events.

It should be clear by now from experience in Australia and overseas that under present inflationary circumstances you do not boost consumption merely by increasing wages.

In the present inflationary situation wage increases are likely to have the opposite effect. They fuel inflation, increase unemployment and reduce spending.

In 1974 between the March and December quarters, real average earnings increased by 10 percent - inflation increased by 13 percent. Consumption went up by less than 1 percent.

The wage increases accelerated inflation. Accelerating inflation increased uncertainty and insecurity amongst consumers.

Consumers accordingly spent less.

Employers were forced to lay off workers. Employment fell, and unemployment rose. This strengthened the vicious circle - savings rose further. Only in recent months has consumption increased as wage restraint has given people more confidence that inflation can be reduced.

This Government is greatly concerned at the high level of unemployment - unemployment we inherited from those who now sit opposite.

Our policies will, in time, lead to a sustainable reduction in the number unemployed. What the Leader of the Opposition refuses to concede - if indeed he realises - is that it will not be possible to rectify overnight the grave damage done to the economy by his Government.

The nature of economies is such that, unfortunately, there is no such thing as a "quick fix". As we have said all along, the job ahead of us will take time. The key to how quickly we progress depends on what happens to inflation in the period ahead.

It used to be that the Leader of the Opposition sought scapegoats for Labor's disasters - now he denies that there ever were disasters - or scandals.

Rather than honestly evaluating their real performance in the past and supporting a co-ordinated approach to restoring confidence, activity and jobs Labor persists with distorting the past and falsifying the present. The Labor Party's approach is calculated to delay recovery and the creation of jobs for those they belatedly profess to care for.

The Leader of the Opposition seeks to deny that recovery is underway. Recent events strengthen the Government's view that recovery is proceeding.

In particular, national accounts estimates for the June quarter have become available since Budget night. Among other things, these show that gross non-farm product rose again in real terms in the June quarter following an increase of 3.2 percent in the March quarter; non-farm product in the first half of 1976 was more than 3 percent above its level in the preceding half year. More importantly the sources of growth in the June quarter indicate that the recovery has been consolidating. Whereas the March quarter increase in non-farm product stemmed largely from a turnaround in stocks, the June quarter increase reflected strengthening private final demand. Private consumption expenditure is estimated to have increased by 2.7 percent in the June quarter following very sluggish behaviour during the preceding three quarters. Investment in dwellings continued at a healthy rate. Investment in plant and equipment consolidated the strong rise recorded in the March quarter. In addition, exports have continued to grow to record levels.

But the Opposition does not want to be confused with any of these facts.

Some people have expressed disappointment that the budget, for them lacked excitement although conceding that it was proper and responsible.

It is true that by the standards of recent years this budget lacks the element of theatre so characteristic of the Leader of the Opposition.

An increase of only 11 percent in the rate at which this Government proposes to spend taxpayers' money in the year ahead has a certain lack of panache compared to the 46 percent increase of only two years ago, or even the 23 percent increase of last year.

A proposed deficit of only \$2,600 million shows, in the minds of some, a certain lack of imagination compared with the prospective figure of about \$4,500 million or more with which we were confronted at the time we took office.

It is true that by contrast with, say, last year we have not sought to levy an additional \$750 million's worth of indirect taxes.

In fact, we have taken the very dull course of not raising any major tax at all.

This is just one more aspect of the Budget's concern for people. Anyone in touch with what is happening in Australia will know that taxation has become a major problem for individuals, families and business. This Government is committed as we have already demonstrated, to a continuing programme of major tax reform. We have introduced full indexation of personal income taxes. We have begun the implementation of reforms in the area of business taxation. Our concern in this area will be a continuing one.

The reforms already introduced by this Government extend far beyond the vital area of taxation. We have had particular regard to the damage the Whitlam policies did to the weakest sections of our community. Our approach has been to increasingly concentrate assistance on those most in need. The family allowance scheme has been the greatest single reform since Federation to assist families in poverty. Pensions and benefit adjustments for inflation will now be automatic. A more equitable income test has been introduced for pensions. Medibank has been reformed to contain costs and provide choice. A new home savings grant has been introduced. Real expenditure on educational programmes has been increased. An imaginative experimental scheme to provide greater housing choice to those on low incomes will be undertaken. Handicapped children's allowances have been increased by 40% to 50%. This has been made possible by our economies in other areas. Triennial funding for universities has been restored.

Beyond these measures we have acted to end one and for all the drift of all power to the Federal Government by our historic Federalism reforms.

The Leader of the Opposition simply does not understand that a nation is weakened, not strengthened by a central Government which seeks to dictate in every area of national life.

Australians are facing an enormous challenge. The Whitlam Government's policies for the public sector set back the chance of building a decent life for Australians by years.

Myth was more important than reality, words took the place of action, posturing for the hard slogging work of providing effective Government. Not only did Government fail to achieve its objectives under Labor. It positively hindered individual Australians from achieving theirs. Families struggled to afford a place to live, to meet the rising costs of education, to find and keep a job, to afford the prices at the supermarket, to protect the value of their savings.

This Government is not ambiguous about the role of the public sector.

An effective public sector is an essential condition for the building of the kind of country where every Australian - rich and poor - can live with dignity and self respect. An effective public sector is one which encourages productivity and investment - which encourages enterprise to increase the nation's wealth, and expand opportunities. An effective public sector is one which gives taxpayers value for the money they are required to spend on it. An effective public sector is one which can devise programmes which work, and enables Australians to be more effective in achieving their goals, meeting their needs. An effective public sector is one which acts to improve the position of the poor and disadvantaged - not undermine it. It must expand people's capacities, not trample them underfoot.

Of course, Government expenditure on roads, transport, education, hospitals, is vital. This is trite and obvious. It is not some profound new discovery of the Leader of the Opposition. It was not even new in 1972. All Australians are agreed on this.

Unquestionably, some worthwhile programmes have had to be curtailed. There is much more that can, should, and will be done in many areas of need. For Labor, constant reiteration of need in these areas - about which there is no argument - had become a substitute for facing up to any of the really difficult questions.

Responsible Government must have the courage to set priorities, to choose - to tell people frankly and openly what is possible and what is not.

The Government must set priorities in public spending - applause for limitless promises is dearly bought as we have seen. Government must weigh increases in Government against private spending by individuals, families and private enterprise.

The Leader of the Opposition acknowledged in passing that private incomes were important. He does not see - or does not care - that an excessive tax burden not only erodes incentives, it makes Australian families increasingly dependent on what politicians choose to provide. The simple fact is that he prefers his plans to theirs. Australians had to surrender their priorities to his.

The sad, the tragic fact is that both Government programmes and the hopes, expectations and plans of individuals, have had to be curtailed because our national resources have actually been diminishing rather than expanding.

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Because for three years we had a government which had neither the commonsense - nor the courage - to set and keep to responsible priorities.

This budget has been a reforming document which will set Australia firmly towards prosperity.

It provides jobs, restrains taxes, encourages enterprise and helps those in need.

It is the kind of budget which - as many commentators have recognised - Australians voted for last December.

It is the kind of Budget which will help build the kind of Australia we all want to see.

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